ENJOYING THE RIDE

SETTING UP THE NEXT GENERATION

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Building generational wealth can seem like a foreign concept. Many people won't begin thinking about building generational wealth until the next generation comes along. As a new parent myself, I can relate.

New parents have become so inundated with changing diapers and trying to sleep that they put these bigger, longer-term goals on the back burner. In other cases, people save and invest so much during their lifetime that generational wealth sneaks up on them, and they are left searching for the appropriate estate and legacy strategies, or worse, not adopting any wealth transition strategies at all.

Currently, Baby Boomers hold roughly $70.56 trillion in wealth, outpacing Gen X's, and Millennials by roughly two, and 10 times respectively. Intuitively this makes sense, however, Millennials have a net worth of a quarter of the size of what Baby boomers had at the same age. That begs the question, what do Baby Boomers know that Millennials don't? And what happens when these Millennials inherit that wealth?

Recent studies indicate that 78% of investors are concerned about transferring assets smoothly, but only 36% said they've had discussions with their heirs regarding their wishes. This could be why roughly 70% of wealthy families squander that wealth on the next generation, and 90% deplete their wealth by the generation after that. This lack of formal planning and breakdown in communication can be costly and damaging to the relationships of your surviving heirs. Moreover, the lack of financial education can increase the risks of depleting that wealth significantly.

Maybe it's time we talk about building durable generational wealth. To do that I like to use the acronym G.I.F.T.

Gather – Gather assets. Earning income is a far cry from saving that money. If you have a consistent stream of income, make sure you pay yourself first. Discretionary income can be used to buy investments and not just consumer goods. Having a budget, a financial plan, and saving before spending will build the foundation of generational wealth.

Invest – Invest in a variety of assets. Once you have established an emergency fund, invest in areas like the stock and bond markets, real estate, and even your personal development. Using the assets that you have gathered over time to generate growth or income allows those assets which you have saved to keep up with, and hopefully outpace inflation. Take advantage of compound interest as well as tax-advantaged vehicles like employer-sponsored retirement plans, IRAs, 529s, etc. Using these types of accounts not only allows you to invest but also protects your money, at least partly, from the effects of income taxes.

Formalize – Meet with your financial advisor, CPA, and/or Attorney to formalize how you would like assets to be distributed to your heirs. Properly list beneficiaries on retirement accounts, place Transfer on Death instructions on taxable accounts, have an appropriate Power of Attorney in place if necessary, and have enough life insurance to cover your debts and loss of income in the event of your passing.

Teach – Teach your heirs about the value of money. Educate them about budgeting, saving, investing, and planning. If you do not possess the time or background to educate your heirs, lean on your financial advisor to involve your children in future conversations. By sharing what we do and don't know about finances with our children, we can help them share in our successes and avoid our past failures.

The truth is that building generational wealth must be durable and long-lasting, otherwise, there is nothing generational about it at all. No matter where you are in your journey, it's never too late to start. Last, but not least, continue to set your sites on your goals and enjoy the ride.

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Building durable generational wealth can benefit your family in the long run PHOTO BY ADOBE STOCK